



**Director of
Central
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*Thursday
1 March 1984*

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Security Notice

The DCI has approved an extension of the deadline for return of the *National Intelligence Daily* from 24 to 72 hours. Earlier return should be accomplished whenever possible. [REDACTED]

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Previous security notices on the sensitivity of the *Daily* and the accountability of recipients for its proper control remain in effect. Duplication or unauthorized disclosure of any part of the *Daily* is not permitted. [REDACTED]

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IRAQ-IRAN: Threat to Khark Island

Western press reports casting doubt on Iraq's claim to have hit a tanker at Khark Island may prompt the Iraqis to attack again to inflict noticeable damage.

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the Iraqis intended their attacks to focus world attention on the threat the war poses to oil supplies. Baghdad also wanted to remind Tehran of Iraq's ability to inflict serious damage on Khark Island in response to an Iranian offensive.

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Comment: Khark Island is well defended, and Iraq is likely to try to hit tankers nearby instead of facilities on the island. Iran in turn could try to demonstrate its ability to hinder oil exports from the Persian Gulf, perhaps through terrorist attacks.

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LEBANON-SYRIA: Political and Military Activity

President Gemayel and Syrian President Assad continue their talks in Damascus today.

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Gemayel and Assad held two negotiating sessions yesterday, but the results of the talks have not yet been announced. Saudi negotiator Hariri plans to join the discussions in Damascus today. Press accounts say Gemayel will visit Saudi Arabia after Damascus in order to brief King Fahd.

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Comment: In his talks with Assad, Gemayel probably is seeking to trade the abrogation of the agreement for Syrian assurances of support for his presidency and guarantees for the Christian community. Although Gemayel presumably is trying to play for time, the Syrians are unlikely to allow him much room to maneuver.

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FRANCE- [] IRAQ: More Financial Aid

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France and Saudi Arabia have made new financial commitments to Iraq, possibly as a result of the recent increase in fighting. []

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Press reports state that the Iraqi First Deputy Prime Minister, during his visit to Paris this week, secured a promise of about \$1 billion in new credits. Iraq needs financing similar to that which it received last year if it is to pay its arms bill and meet its obligations to French civilian contractors. []

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Iraq did not pay all its debts incurred to France in 1983, which included about \$1 billion in loans for civilian contracts. Iraq was to send 80,000 barrels of oil per day to France in payment for military equipment. []

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Comment: As Iraq's largest Western arms supplier, France views its support of Iraq as essential to prevent an Iranian victory that would spread Iran's Islamic revolution throughout the Persian Gulf. The French also want to protect their already sizable financial stake and political influence in Iraq. The new loan probably is intended to pay for civilian contracts rather than military equipment, for which Paris insists on cash payments. []

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CANADA: Implications of Trudeau's Decision

Prime Minister Trudeau's decision to resign as party leader after his party has selected a successor may allow the Liberals to rebound in the polls temporarily, but in the long run it probably will help the Conservatives win the next federal election. []

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Trudeau stated his decision yesterday in a letter to the Liberal Party president but said he will remain head of government until a party leadership convention is held. According to press reports, the party's president says she wants to hold the convention in late June.

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Comment: Trudeau apparently made his decision only this week, probably as a result of a general weariness with public life and other personal considerations. He will leave several of his most important objectives unfulfilled, including obtaining tangible results from his peace initiative and protecting French language rights in Manitoba. He is unlikely, however, to encounter serious opposition to his resignation from within the party, many of whose members now consider him a political liability. []

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The candidates for party leadership include External Affairs Minister MacEachen, Energy Minister Chretien, Employment Minister Roberts, and Toronto lawyer and former Finance Minister Turner. Turner lost to Trudeau in the party's last leadership contest in 1968, but he now appears to be the most likely successor. Since resigning from the government in 1975, he has maintained extensive contacts in the party and reportedly has a campaign organization ready to begin work immediately. []

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The Liberals probably will benefit in the polls from the excitement surrounding Trudeau's retirement, the increased public interest caused by the leadership convention, and the highly publicized installation of a new leader, but the gain may be short-lived. Polls consistently have shown that Canadians are weary of nearly 20 years of unbroken Liberal rule. Even Turner probably would not be seen as enough of a change. []

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After any euphoria surrounding the succession dissipates, the Conservative Party is likely to emerge in a stronger position. Tory leader Mulroney is a native of Quebec and already enjoys overwhelming support in English Canada. He may even be able to weaken the Liberals' stranglehold in Quebec, where they are led by Turner, who is bilingual but not from Quebec. []

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EL SALVADOR: Leftist Labor Activity

The insurgents have launched a well-coordinated campaign to stimulate labor unrest and create violence in the capital before the election. []

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Reliable US Embassy sources report that leftist labor fronts are behind a series of recent strikes and slowdowns that have affected eight organizations in the public sector. Insurgent plans call for more strikes over the next few weeks in an attempt to provoke military intervention. At that point, the guerrillas reportedly plan to intervene on the side of the strikers. []

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The situation is complicated by the expiration last December of a government decree freezing wages. According to the Embassy, the political parties in the Legislative Assembly are reluctant to extend the decree again during the election campaign. []

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President Magana is trying to reduce the contention over the issue. The Embassy reports he will propose a 10-percent salary increase for all government employees. []

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Comment: There has been little labor unrest over the past three years, as a result of the insurgents' shift to rural warfare after January 1981 and the Army's effective crackdown on leftist labor fronts in the capital. The guerrillas apparently are trying to manipulate the legitimate wage demands of government workers at a time when they believe the administration is most vulnerable. Unless the military overreacts, however, Magana should be able to calm the situation without forcing another wage freeze. []

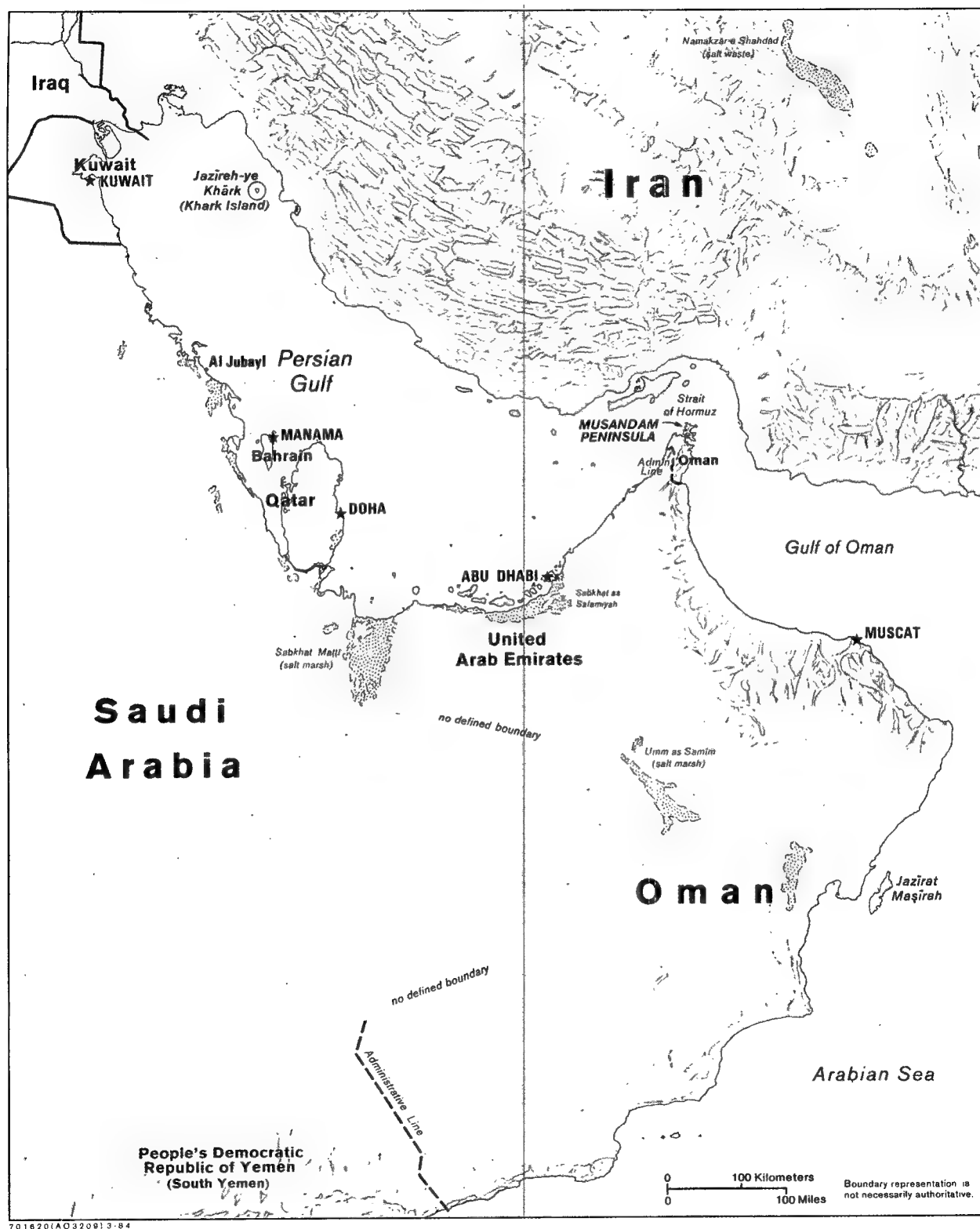
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SAUDI ARABIA-OMAN: Military Preparations

Saudi Arabia and Oman have increased their military preparations in recent weeks in reaction to Iranian threats and a possible intensification of the war. [REDACTED]

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Last month the Saudi naval flotilla in the Persian Gulf conducted a training exercise, according to the US defense attache in Jidda. Four of the flotilla's six missile patrol boats and two of its four minesweepers took part. The training included coordination between Navy and Air Force units and minesweeping operations designed to remedy recently noted deficiencies. [REDACTED]

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In late January the Omani armed forces conducted combined exercises with British air and naval units that were accompanied by the commander in chief of the Royal Navy. The British aircraft have returned to the UK. Last month Omani air, ground, and naval forces practiced defensive operations around the Musandam Peninsula on the Strait of Hormuz, according to US defense attaches. [REDACTED]

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Oman subsequently requested that the UK provide a minesweeping force for use in the strait during an emergency. According to the British Ambassador, the UK has agreed in principle. It has told the Omanis, however, that it will take over a month to bring it to the area and that it wants Oman to help pay the costs. [REDACTED]

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Comment: The Saudi and Omani Navies are equipped with effective antiship missile systems and could inflict serious losses on the debilitated Iranian Navy. Saudi minesweeping capabilities are limited, however, and the Saudis have said they have no plans to operate in the strait. All of the Persian Gulf states are vulnerable to a major Iranian air attack and would require Western assistance for an effective defense. [REDACTED]

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SURINAME: Pressure for Reform

Army Commander Bouterse is resisting demands from labor and business leaders for a formal commitment to democratic reforms, but he may agree to some cosmetic changes. []

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The US Embassy reports that labor and business representatives in the interim cabinet failed to get Bouterse's approval for a program committing the government to the restoration of democracy and civil rights. Bouterse earlier had refused to include specific references to democratic reforms in a decree establishing goals for the cabinet.

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The proposed reform program has been discarded, but a leading businessman says the democratization issue will be brought up again. Moreover, the president of a major labor federation recently made an unusual call in public for the restoration of freedoms and an end to the curfew that has been in effect since December 1982. []

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Comment: Bouterse will not agree to a reduction of his personal power, and he probably will forestall any serious discussion of democratic reforms. Labor and business leaders, mindful of Bouterse's previous brutality against his opponents, are likely to move cautiously. []

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Nevertheless, Bouterse is aware of Suriname's economic problems and probably will be reluctant to upset the coalition established with labor and business groups following the recent bauxite workers' strike. With the prodding of moderate Prime Minister Udenhout, Bouterse may make some minor accommodations, such as lifting the curfew or relaxing press censorship, to ensure the participation of these groups in the interim government. []

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CHINA-UK: Differences on Hong Kong

China and the UK, in talks last week on Hong Kong's future, differed over several fundamental issues, and the British now are privately acknowledging that the talks will have to extend beyond the summer. []

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British officials say Beijing agreed to London's suggestion that British expatriates remain in the civil service after 1997, but the two sides have not resolved their differences over the level at which these officials could serve. The British want them to be eligible for cabinet rank, while the Chinese fear problems of dual loyalties and want them limited to lower levels. []

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The Chinese have not yet responded to the British proposal that a local militia, responsible to Hong Kong's government, replace departing British forces in 1997. The Chinese dismiss British advice that China not station troops in Hong Kong but state their intention to deal prudently with the issue. []

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In addition, the British proposed that Hong Kong's governor be elected by the city's legislative council. They believe that this is compatible with an earlier Chinese suggestion, although the Chinese had indicated they want to ratify the selection. The British proposal left the selection method for the legislature and cabinet deliberately vague, noting only that there should be an "elective process."

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The British now believe that there is almost no possibility the negotiations will be completed in time for an agreement to be submitted to Parliament before the recess in July. They expect the next sessions, on the citizenship and civil aviation issues, to be troublesome. London also expects the negotiations over transition arrangements—which have not even been broached—to be lengthy and contentious. []

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Comment: The talks are likely to drag on because the two sides have reached the more controversial issues on which neither seems ready to compromise. The British probably will insist on having their expatriate administrators in senior and visible positions after 1997 in order to maintain business and public confidence. []

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The talks concerning transition arrangements will be particularly difficult. The British are concerned about maintaining administrative control if they concede any of their sovereign powers before 1997. []

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USSR: Criticism of Railway Sector

An editorial in *Pravda* this week indicated that performance in the railway sector had deteriorated recently, despite a good record in January. It also said that, in order to improve performance, the economic experiment launched last month that gives enterprises in selected industries more autonomy would be extended to railways in some regions. Western press reports claim that the editorial notes that the deterioration began after Andropov's death. [REDACTED]

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Comment: The editorial does not indicate that the decline began after Andropov died, but it does imply that problems have emerged since January. Last week First Deputy Premier Aliyev publicly claimed there has been improvement in the railroads' performance, and the editorial could be interpreted as criticism of his oversight of the transport sector. The leadership is likely to be monitoring performance closely, out of concern that there might be a relaxation of work discipline. The current criticism probably is intended to underscore that emphasis on discipline will not slacken under General Secretary Chernenko, while the extension of greater autonomy in conjunction with such criticism evidently is intended to demonstrate that initiatives begun under Andropov will continue. [REDACTED]

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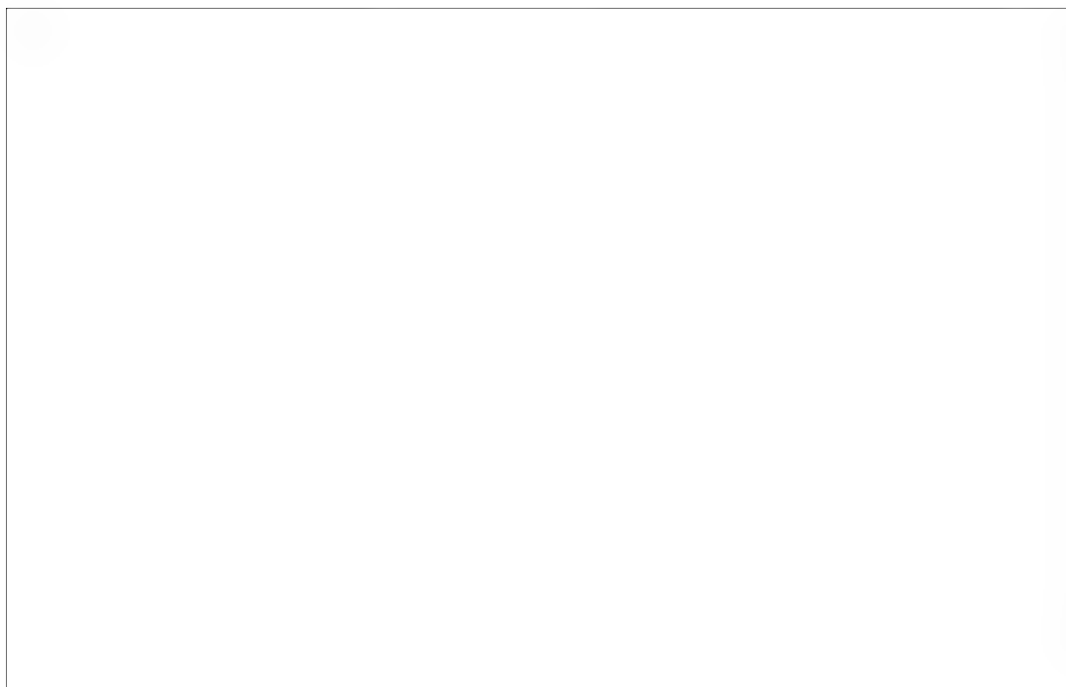
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BELGIUM-USSR: Technology Transfer Case

The Belgian delegate to COCOM informed the US Embassy in Paris on Monday that Belgium has withdrawn its request for COCOM approval to export to the USSR a large numerically controlled machining center. The center was to be delivered to the heavy machinery complex at Novokramatorsk, which is the only known producer of components for SS-19 silos. [redacted]

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Comment: The withdrawal follows a presentation by US officials to Foreign Minister Tindemans of evidence of the military production at Novokramatorsk. The decision of the Belgian Government is likely to have domestic political repercussions. The firm that manufactured the machining center is located in a region of high unemployment, and the withdrawal could jeopardize future Soviet orders for machine tools from the Belgian company. Increased domestic pressure may still force Belgian officials to approve the transfer outside of COCOM channels. [redacted]

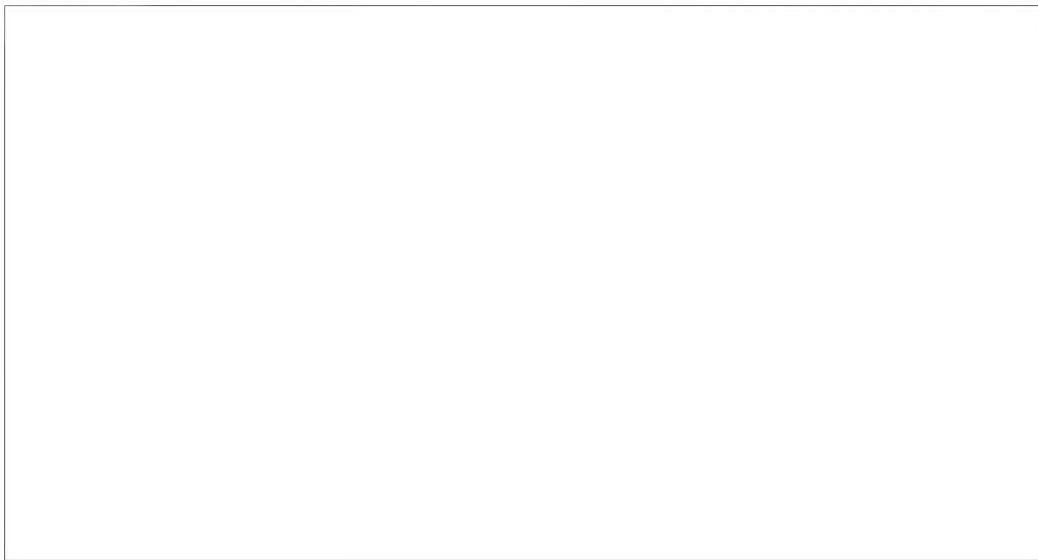
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ITALY: Christian Democrats in Disarray

The Christian Democratic congress that ended yesterday has left the party more divided than ever. Secretary DeMita was reelected but was criticized by his opponents and received a much smaller majority than expected. His call for more extensive powers to undertake party reform was rejected by other party leaders. Moreover, his assertion that the era of Christian Democratic cooperation with the Communists is over was loudly contested by leaders of the party's left wing.

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Comment: The atmosphere at the congress suggests that the party will be in disarray for some time and that DeMita will be leader in name only. He had hoped that the congress would prepare the party to win back some of the votes it lost in the national election last spring. It will now be in a poor position to campaign for the election for the European Parliament this June.

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BANGLADESH: Increasing Political Tension

President Ershad yesterday announced joint presidential and parliamentary elections for 27 May, but the move probably is too late to calm growing unrest. [redacted] the country's largest moderate opposition group, the Bangladesh Nationalist Party, has agreed to support a nationwide strike called for today by an alliance of leftist parties to protest the President's efforts to limit political activity. The government already has arrested some minor politicians to prevent their involvement. It plans to use its own armed political and student groups and the sizable police forces to contain the strike [redacted]

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Comment: The strike is likely to result in violence. Ershad's announcement of elections is designed to appeal to the moderate opposition but almost certainly will not stop it from supporting the strike. Some senior military generals oppose Ershad's efforts to accelerate the return to civilian rule. If there is widespread violence, they may cite it as proof of Ershad's incompetence and call for his removal. [redacted]

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